
UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION

(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)

FINANCIAL STATEMENTS

DECEMBER 31, 2012



A Professional Accounting Corporation

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UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION

(A MAJOR AFFILIATE OF LSU PURSUANT TO LA. R.S. 17:3390)

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11
Schedule of Findings	12
Schedule of Prior Year Findings	13

INDEPENDENT AUDITORS' REPORT

Board of Directors
University Medical Center Management Corporation
(A Major Affiliate of LSU Pursuant to La. R.S. 17:3390)
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390) (the "Corporation"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390) as of December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 12, 2013, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Postlethwaite : Netterville

Baton Rouge, Louisiana
August 12, 2013

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 522	\$ 2,536
Accounts receivable	43,650	115,748
Total current assets	<u>44,172</u>	<u>118,284</u>
 TOTAL ASSETS	 <u>\$ 44,172</u>	 <u>\$ 118,284</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 43,650	\$ 117,919
Total current liabilities	<u>43,650</u>	<u>117,919</u>
 <u>NET ASSETS</u>		
Unrestricted	<u>522</u>	<u>365</u>
Total net assets	<u>522</u>	<u>365</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 44,172</u>	 <u>\$ 118,284</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>REVENUES</u>		
Grant revenue - State of Louisiana	\$ 478,495	\$ 784,572
Grant revenue - Office of Community Development	-	324,494
Total revenues	<u>478,495</u>	<u>1,109,066</u>
<u>EXPENSES</u>		
Legal fees	166,469	189,295
Consulting fees	303,534	814,295
Audit fees	7,800	-
Bank charges	535	427
Total expenses	<u>478,338</u>	<u>1,004,017</u>
Change in net assets	157	105,049
<u>NET ASSETS - UNRESTRICTED</u>		
Beginning of year	<u>365</u>	<u>(104,684)</u>
End of year	<u>\$ 522</u>	<u>\$ 365</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 157	\$ 105,049
Changes in operating assets and liabilities:		
Receivables	72,098	(115,748)
Accounts payable	<u>(74,269)</u>	<u>13,235</u>
Net cash (used in) provided by operating activities	<u>(2,014)</u>	<u>2,536</u>
 Net change in cash	 (2,014)	 2,536
Cash, beginning of year	<u>2,536</u>	<u>-</u>
Cash, end of year	<u><u>\$ 522</u></u>	<u><u>\$ 2,536</u></u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Organization and Purpose

The Corporation was originally incorporated on October 12, 2005, as Earl K. Long Medical Foundation, Inc. Its articles of incorporation were amended and restated on July 9, 2010, pursuant to which its name was changed to University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390). The Corporation is (i) organized on a non-stock basis as a nonprofit corporation, as provided for by La. R.S. 12:201, and is irrevocably dedicated to the purposes stated in Article 4 of its amended and restated articles of incorporation and (ii) a support organization affiliated with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College ("LSU").

As contemplated by that certain Memorandum of Understanding ("MOU") among LSU, the State of Louisiana Division of Administration, the State of Louisiana Department of Health and Hospitals and Tulane University, originally dated August 28, 2009, which was subsequently amended on March 2, 2010, it is intended the Corporation will manage and operate the new Academic Medical Center under construction by the State of Louisiana in New Orleans. The intended purposes and role of the Corporation are set forth in the MOU. The Corporation's affiliation in support of LSU is for the purpose of furthering LSU's educational mission in training its medical and allied health students, medical residents and conducting research in alignment with its academic and educational research mission.

Pursuant to the MOU, it is contemplated the Corporation will enter into a cooperative endeavor agreement and other agreements providing authority for it to manage and operate the Academic Medical Center when the construction is complete. The Corporation is not responsible for the design or construction of the Academic Medical Center and does not own the land and buildings comprising the Academic Medical Center.

The Corporation had no operations and no employees as of December 31, 2012 and 2011. The Board of Directors is currently serving as management for the Corporation. The members of the Board of Directors serve without compensation.

2. Significant Accounting Policies

Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows generally accepted accounting principles (GAAP), which requires the Corporation to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Corporation did not have any temporarily or permanently restricted net assets at December 31, 2012 and 2011.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

Accounts Receivable

The Corporation determines past due accounts based on contractual terms and does not charge interest on the accounts. The Corporation charges off receivables if management considers the collection of the outstanding balance to be doubtful. Management does not believe an allowance is necessary at December 31, 2012 and 2011.

Cash

Cash includes all monies in banks and highly liquid investments with original maturities of less than three months.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes

The Corporation has been recognized by the Internal Revenue Service as a not-for-profit Corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes on related income has been included in the financial statements.

The Corporation has adopted the accounting guidance related to accounting for uncertain tax positions. In Management's judgment, the Corporation does not have any tax positions that would result in a loss contingency considering the facts, circumstances, and information available at the reporting date.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

Income Taxes (continued)

With few exceptions, the statute of limitation for the examination of the Corporation's income tax return is generally 3 years from the due date of the tax return including extensions. The tax years open for assessment are the years ending on or after December 31, 2009.

3. Grants

The Corporation received a grant from the Office of Community Development on December 1, 2010 with reimbursement for qualified expenses up to \$325,000. The agreement ended on June 30, 2012. The purpose of the program was to assist in the development of the new Academic Medical Center and the resultant provision of health care services to the citizens of Louisiana as well as the creation of economic growth and retention of existing businesses in areas impacted by Hurricanes Katrina and/or Rita.

The Corporation received a grant from the State of Louisiana (Division of Administration) with reimbursement for qualified expenses up to \$1,186,000. The agreement was amended on July 2, 2012 increasing the reimbursement for qualified expenses up to \$1,296,000. Payments under this agreement shall be authorized for costs incurred between August 1, 2010 and June 30, 2013. The purpose of this funding is to assist with the administrative costs of the Board related to compliance with or in furtherance of the objectives of the Memorandum of Understanding. The amount remaining on the grant as of December 31, 2012 and 2011 was approximately \$33,000 and \$401,000 respectively.

4. Memorandum of Understanding

The Corporation entered into a Memorandum of Understanding (MOU) on December 18, 2012 with the Louisiana Children's Medical Center ("LCMC"), Board of Supervisors of Louisiana State University and Agricultural and Mechanical College ("LSU"), State of Louisiana, Division of Administration (the "State"), State of Louisiana, Department of Health and Hospitals ("LaDHH") and Administrators of the Tulane Educational Fund ("Tulane"). LCMC, the Corporation, the State, LaDHH and Tulane are referred together as the Parties.

The MOU is designed to set forth the understandings of the Parties and their collective intentions with respect to a transaction whereby LCMC would become the sole member of the Corporation upon the closing under a Cooperative Endeavor Agreement (the "CEA") for a private/public collaboration whereby the Corporation would assume the responsibility, on terms and conditions agreed by the Parties, for the management and operation of the Interim Louisiana Hospital currently owned and operated by LSU, and upon its completion, the new University Medical Center that is currently under construction in New Orleans. See Note 5 regarding the signing of the CEA.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 12, 2013, and determined that the following item requires additional disclosure. It was noted that the Corporation entered into a Cooperative Endeavor Agreement (CEA) on May 29, 2013 between the Parties as listed in Note 4, excluding Tulane. On June 6, 2013 the Corporation made advanced lease payments of \$253 million according to the terms of a Master Lease Agreement that was entered into as part of the Cooperative Endeavor Agreement with LCMC. No events occurring after this date have been evaluated for inclusion in these financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
University Medical Center Management Corporation
(A Major Affiliate of LSU Pursuant to La. R.S. 17:3390)
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390) (the "Corporation"), which comprise the statement of financial position as of and for the year ended December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompany schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Corporation's response to the finding identified in our audit is described in the accompany schedule of findings. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite : Wettersville

Baton Rouge, Louisiana
August 12, 2013

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

Findings– Financial Statements and Segregation of Duties

2012-1

Drafting of Financial Statements and Related Notes

Criteria:

The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Corporation, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Internal control over financial reporting should also include policies and procedures that ensure that controls over the accounting function are segregated to serve as a check and balance.

Condition:

As part of the audit process, we assisted management in drafting the financial statements and related note disclosures required for the year-end financial reporting. The fact that our role is a key part of the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) is an indication that the internal control over year-end GAAP financial statements by Corporation personnel is not sufficient. We also noted that one person was responsible for issuing the checks and compiling the financial information. This is a repeat finding from the prior year.

Cause:

Since the Corporation had no operations or employees during the year, many of the critical duties were combined and assigned to one Board member.

Effect:

The lack of accounting personnel constitutes a material weakness in their internal control over financial reporting.

Recommendation:

Upon obtaining additional funding and prior to commencement of operations, we recommend that the Corporation hire accounting personnel to assist with financial reporting and enhance segregation of duties within the Corporation.

View of Responsible Official

And Planned Corrective Action:

The Corporation intends to implement this recommendation prior to the commencement of operations and upon obtaining necessary funding.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2011

Findings– Financial Statements and Segregation of Duties

2011-1

Drafting of Financial Statements and Related Notes

Criteria:

The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Corporation, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Internal control over financial reporting should also include policies and procedures that ensure that controls over the accounting function are segregated to serve as a check and balance.

Condition:

As part of the audit process, we assisted management in drafting the financial statements and related note disclosures required for the year-end financial reporting. The fact that our role is a key part of the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) is an indication that the internal control over year-end GAAP financial statements by Corporation personnel is not sufficient. We also noted that one person was responsible for issuing the checks and compiling the financial information.

Cause:

Since the Corporation had no operations or employees during the year, many of the critical duties were combined and assigned to one Board member.

Effect:

The lack of accounting personnel constitutes a material weakness in their internal control over financial reporting.

Recommendation:

Upon obtaining additional funding and prior to commencement of operations, we recommend that the Corporation hire accounting personnel to assist with financial reporting and enhance segregation of duties within the Corporation.

**View of Responsible Official
And Planned Corrective Action:**

The Corporation intends to implement this recommendation prior to the commencement of operations and upon obtaining necessary funding.

Current Status:

Not resolved. See finding 2012-1.